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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000950

SIPDIS

STATE FOR EAP/BCLTV, EB/ESC/ESP
BEIJING PASS CHENGDU
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OFAC, OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 08/07/2013
TAGS: ETRD ECON PGOV BM
SUBJECT: SANCTIONS CATCH BUSINESSES, GOVERNMENT FLAT-FOOTED

REF: A. RANGOON 921

¶B. RANGOON 889
¶C. WOHLAUER-GLAZEROFF 7/24 EMAIL

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

¶1. (C) Summary: Businesses have faced more trouble than they expected from the new U.S. sanctions on Burma. While local traders are scurrying to find a creative solution to their financial problems, the Burmese government has refused to take any action other than attempt to reassure the business community with empty promises that "all will be well." We see a number of likely economic consequences coming in the short term, though the X-Factor remains any possible policy response by the regime. End summary.

Businesses: Why Me?

¶2. (C) Those in the business community who rely on banks and official trade channels are in a panic over the impact of the new Burma sanctions. Because of the pre-sanctions focus on minimizing exposure to the ban on imports of Burmese products into the United States, few took the time to understand how seriously their operations would be curtailed by the ban on financial services. Because legal, non-border, foreign trade in Burma is almost exclusively in U.S. dollars, importers and exporters have found themselves unable to open new letters of credit and unable to easily get payment on letters of credit that weren't settled before the sanctions took effect at 12:01 am EST on July 29.

¶3. (C) Burmese traders report that their exports and imports have ground to a halt as the foreign banks with whom they normally do business, mostly in Singapore, have stopped honoring letters of credit involving the Burmese state-owned foreign trade banks: Myanmar Foreign Trade Bank (MFTB), Myanmar Investment and Commercial Bank (MICB), and the Myanmar Economic Bank (MEB). These banks hold the monopoly on foreign exchange and official foreign trade transactions.

¶4. (C) A number of European and Asian investors told us that the new obstacles caused by the financial sanctions, combined with the dismal pre-existing investment climate, will make it impossible to stay in Burma. A Korean diplomat told the DCM that Korean investors in the garment sector (30-40 individuals or firms) are beginning to seriously explore options for decamping to Sri Lanka, Vietnam, or just across the border into Thailand. Those foreign investors that choose to remain will likely fall into three categories: those who are able to make their money on illegal border trade or border trade in Chinese yuan or Thai baht, those who can arrange barter trade, and those who foolishly believe the sanctions will be lifted as soon as Aung San Suu Kyi is released. This latter bit of wishful thinking is widespread, despite our repeated public assurances to the contrary.

¶5. (C) However, despite their agitation, most local traders with whom we spoke were sanguine that they would find a creative solution to what is merely the latest obstacle to their doing business. Said one, "our government has been imposing their sanctions on us for 40 years, so we'll have no trouble adapting to yours." Indeed, some of our more wily business contacts report that they've already established new modus vivendi to continue their trading businesses without problem.

Government: Who Us?

¶6. (C) According to several business sources, the Ministry of Commerce and the Office of the SPDC Chairman co-hosted an emergency session on the new sanctions on August 4 for Burmese traders. The well-attended meeting went about one hour with presentations by the Minister of Commerce, the Minister of Economic Development and National Planning, a minister from the SPDC Chairman's office, and the Deputy Finance Minister. Despite the augustness of the presenters, all reports indicate that the GOB had no advice for the panicky businesspeople other than to continue on as best they can in the new environment, and to resolve any specific

concerns with their bankers. The policymakers offered no hint of any pending regime reaction to the new sanctions, and only mentioned in passing the wisdom of expanding barter trade or conducting commerce in a currency other than the U.S. dollar.

¶7. (C) Businesspeople close to government economic officials tell us that the regime is still in a state of denial, poorly understanding the full impact of the sanctions on the country's official trade sector. Apparently these officials, and likely those above them, are still clinging to the expectation that China and/or India will come to Burma's financial assistance -- an expectation that may have some merit (see Ref B and C).

¶8. (C) Aside from a virulent July 31st attack on U.S. sanctions policy by SPDC Secretary One General Khin Nyunt, there has been little public GOB response since the sanctions were imposed. A report written for SPDC Secretary Two Lt. General Soe Win on the Embassy's sanctions briefing on July 31st (Ref A) was very factual, accurately summarizing the briefing's contents with no editorial commentary. Likewise, the Minister of Commerce's session for traders reportedly contained no anti-U.S. rhetoric or finger pointing.

The Future: Who Knows?

¶9. (C) Over the next few weeks and months, we see the following as some of the possible specific consequences of the sanctions: unemployment as garment factories and other employers shutter for lack of business; a sharp reduction in the GOB's official reserves as the inflow of legal U.S. dollars stops; an increase in the already large, predominately U.S. dollar-denominated informal economy (especially border trade); a resulting boost for neighboring economies and for the ethnic groups that control key border trade areas; an increase in the kyat value of the U.S. dollar as supplies dwindle and importers must buy cash from the marketplace; and, a steady decrease in the kyat value of the U.S. dollar denominated Foreign Exchange Certificate. Though the economic problems will ripple through the middle class, and then into the working class as unemployment results from the expected shuttering of factories and other employers, it is far too early to predict any social unrest.

¶10. (C) The X-Factor is the reaction of the Burmese government. It could ease the woes of local traders by publicly encouraging trade in another foreign currency or loosening import restrictions (which currently require importers to hold offsetting accounts of U.S. dollar export proceeds in a government bank account). It could also go the other direction, conserving precious foreign exchange by enforcing more strictly existing foreign exchange control laws that forbid Burmese citizens from holding foreign currency, or tightening import restrictions.
Martinez